Article - Estates and Trusts

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§15–514.

(a) Except as otherwise provided in subsection (b) of this section, a trustee shall allocate to principal the proceeds of a life insurance policy or other contract in which the trust or its trustee is named as beneficiary, including a contract that insures the trust or its trustee against loss for damage to, destruction of, or loss of title to a trust asset. The trustee shall allocate dividends on an insurance policy to income if the premiums on the policy are paid from income, and to principal if the premiums are paid from principal.

(b) A trustee shall allocate to income proceeds of a contract that insures the trustee against loss of occupancy or other use by an income beneficiary, loss of income, or, subject to § 15-510 of this subtitle, loss of profits from a business.

(c) This section does not apply to a contract to which § 15-516 of this subtitle applies.

(d) (1) This subsection applies to any obligation for the payment of money at a future time, provided the obligation was held as an asset of a trust that was irrevocable on October 1, 2000 (regardless of whether the asset was acquired before or after October 1, 2000), and provided the trustee makes an irrevocable election on the first year-end accounting of the trust's principal and income stated after September 30, 2000 to allocate distributions in accordance with this subsection, including:

(i) A bond;

(ii) A zero coupon bond;

(iii) An annuity contract before unitization;

(iv) A life insurance contract before the death of the insured; and

(v) An interest in a common trust fund as defined under § 584 of the Internal Revenue Code with respect to charitable remainder trusts as defined under § 664 of the Internal Revenue Code and pooled income funds as defined under § 642(c)(5) of the Internal Revenue Code.

(2) Unless otherwise provided in the trust instrument or in this subtitle, the increment in value of an obligation for the payment of money payable at a future time in accordance with a fixed, variable, or discretionary schedule of appreciation in excess of the price at which it was issued shall be distributable as income.

(3) The increment in value is distributable to the beneficiary who was the income beneficiary at the time of the increment from the first principal cash available or, if none is available, when realized by sale, redemption, or other disposition. Whenever unrealized increment is distributed as income, but out of principal, the principal shall be reimbursed for the increment when realized.

(4) For purposes of this subsection, the increment in value of an obligation for the payment of money shall be available for distribution only when the trustee receives cash on account of the obligation.

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